

# Slovenia 2018



**Total: 70.88**

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## Political Freedom

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### **Free and Fair Elections : 10**

Freedom and fairness of the electoral process in Slovenia is guaranteed by the Constitution. They reflected at all recent elections. During the reviewed period regular presidential and early parliamentary elections were held, both having had gone without serious voting or campaign irregularities, thus regarded as highly free and fair. A dynamic period in Slovenia's politics started with the two rounds of presidential elections in October-November 2017, whereat the incumbent president Borut Pahor reached victory by a small margin over his contender in the run-off Marjan Šarec. Instability and weakness of the ruling coalition, brokered between the Modern Center Party, the Social Democrats and the Democratic Party of Pensioners, led to yet another snap parliamentary election, on 3 June 2018. In the middle of March, Prime Minister Miro Cerar resigned after Constitutional Court had annulled the results of the "railway referendum". However, the move was rather perceived as strategic one, in order to retain certain support ahead of the parliamentary elections. Elections were marked by a grand comeback of Janez Janša, the leader of the Slovenian Democratic Party, and by a crisis of ruling political parties, which all resulted in Marjan Šarec's list coming as the second. Former PM Janez Janša was released of charges in 2015, allowing him to actively participate in political life further on. Until 30th of June 2018 the government wasn't formed, but due to weak coalition potential of Janez Janša it was expected that a wider block of democratic parties would form a new government.

### **Absence of Unconstitutional Veto Players : 9.17**

Democratically elected officials have virtually unchallenged power to govern in Slovenia, hence there are no unconstitutional veto players in the country. System of checks and balances is set, providing a framework for independence and efficiency of the legislative, executive and judiciary. However, in real life, their work is not so smooth. During the past year, government demonstrated weakness in pushing through amendments through the parliament, mainly due to inner-coalition disputes. It is to be seen how efficient the next government of Slovenia will be, if, as is likely to happen, it is composed of even more political parties. Also, impartiality and independence of the judicial system was challenged numerous times on the corruption cases involving high profile politicians.

### **Freedom of Press : 7.7**

Wide variety of printed, TV, radio and online media outlets in Slovenia are able to operate without

restrictions and to provide citizens with diverse choice of views. Slovenia jumped by 5 places up on the Reporters without Borders 2018 World Press Freedom Index, holding currently 32nd position on the list. Still, many problems exist in the media sphere. Journalists are independent at work however extensive economic (poor working conditions) or political pressure (e.g. while covering sensitive issues) have led to increasing level of self-censorship among them. An important cause of the latter is defamation, which remains as a criminal offense. Slovenia is not excluded from the regional trend of concentration and politicization of media ownership, which is hampering pluralism. There are numerous media outlets which provide favorable coverage to certain political parties.

\* Press freedom score will be updated after data from primary source have been published. For more information see Methodology section.

## Rule of Law

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### **Independence of the Judiciary : 4.09**

Slovenia`s judiciary enjoys a mottled record of integrity and independence. Citizens perceive it as free of direct bribery (although companies are thereby skeptical), albeit heavily exposed to political interference, in corruption as well as in politically sensitive cases. Court efficiency had been poor for long – the backlog of cases was serious - but it has recently improved a lot, significantly decreasing the backlog. Constitutional Court proved its relative independence from both the government and the public opinion, but it faced objections for alleged bias. Government failed to implement and tried to circumvent some of the CC`s decisions (such as on equitable financing of private schools). In one case, CC overturned a referendum (on building of a railway line) due to Government`s misuse of public funds in the referendum campaign. Criminal courts have meanwhile tried and/or sent to prison several former or actual politicians.

### **Corruption : 6.1**

Slovenia stagnated in curbing corruption in 2017. Transparency International`s latest CPI report puts it on place 34, out of 180 countries, together with Botswana, with a score 61, same as last year. Experts disagree on whether the reasons for the stalemate are just political (not enough will to let institutions work) or they are systematic (incomplete transition from economic dirigisme to market economy). Some experts even blame the alleged state capture by ex-Yugoslav secret services as the main source of corruption. Others blame the main anti-corruption institution Commission for Prevention of Corruption and its meager activity in crucial matters. Some of the regulation in Slovenia is the best in the EU (such as on lobbying), but implementation thereof is lagging behind. There are still “political loans” by banks, or favoritism and/or price-inflating in public procurement and infrastructure building. There were speculations in media in June 2017 about alleged money laundering by two the-then state owned banks in 2009-2010, but nothing was done to investigate those.

## Protection of Human Rights : 8.3

Most civil liberties in Slovenia are guaranteed and freely enjoyed. Freedoms of speech, association or religion are highly respected. Members of some minorities are well accepted by vast majority, be they native minorities, or Yugoslav-times` or globalization-era immigrants (all three were, or are, among the - directly - elected Mayors). Others, according to Amnesty International 2018 report, still struggle to overcome discrimination, such as Roma or “erased” ex-Yugoslavs. Except child adoption, most other rights of the LGBT couples are respected (including marriage). Discrimination of women at work is in retreat, while gender pay gap fell well below 10%. Prostitution is legalized, yet measures against trafficking of women (for forced prostitution) or children (for begging) are still insufficient. Slovenia participates in the EU program of resettlement of asylum seekers, but less than half of the promised 567 were indeed resettled in 2017. The procedures for those applying for asylum in Slovenia are lengthy, while the revocation of the status was recently made easier.

## Economic Freedom

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### Security of Property Rights : 5.97

Property rights in Slovenia are mostly respected. Government holds the right to expropriate private property in case of public interest, but it is seldom exercised, whereby monetary compensation must be in line with the perceived market value. There are certain restrictions and limitations to foreign (non-EU) ownership in several sectors, mostly in financial services and banking, gaming and air and maritime transport. There is a five tier court system (district, regional, appeal, supreme and administrative). There are also separate labour and social court systems, which deal with labour disputes and social welfare claims respectively. Judiciary is mostly independent from out-of-the-court influences, but there are some reports regarding influence of the political elite on the judiciary in high profile cases. Therefore, judiciary still holds very low level of trust among the broad population when compared to other civil service branches, and courts are not considered as fully impartial. Low efficiency of court dealings, which results in very long judicial processes, significantly undermines the rule of law in the country. On average, a trial lasts longer than 3 years. There is a very high number of old cases that haven't still been resolved, although their number has decreased in the previous year to slightly above 70 000. Adjudgment regulations are very lax, with no maximum number of adjournments and a frequent use of this instrument within the courts. On the other hand, resolving insolvency is streamlined, with relatively quick procedures, very high recovery rates (slightly below 90% of the claim) and low costs. Most cases are resolved via going concern sales. Registering a property is an unnecessarily long procedure (a month and a half on average) although inexpensive, due to long data entry at the Land Register and tax determination at the Tax office. Almost all land has clear titles. The process of denationalization of the property that was nationalized after the World War II is almost completed, with just a few cases left open. In March 2018, the Investment Incentives Act was adopted, which defined incentives, criteria and procedures for receiving them in cases of FDI.

## **Size of Government: Expenditures, Taxes, and Enterprises :**

### **4.5**

Government expenditures in Slovenia are slightly below European average, reaching 40% of GDP in 2017. Bulk of expenditure consists of social transfers, aimed at income redistribution through welfare programs. Public debt is huge, standing at 75% of GDP in 2017, yet down from its all-time high level of 83% in 2015. Slovenia was able to exit the EU excessive deficit procedure by mid-2016, since its deficits finally fell below the Maastricht threshold, and the budget is nearing balance. But the elevated level of debt still poses significant macroeconomic risk, especially in the case of a new economic downturn. For the time being, the economy is booming, with the growth surpassing 5% in 2017, due to a rise in exports, rising consumption and investments. Unemployment is also historically low, nearing 6%. Since there has never been a full scale privatization program in Slovenia, state-owned enterprises (SOE) are present in many areas of the economy, especially in banking and insurance, energy, transport and telecommunications, within an intricate web of cross-enterprise ownership. Government is therefore involved in a significant proportion of the overall economy. Troubled SOEs are often linked to big state banks with increasing level of NPLs, which further aggravates risks for public finances. Asset management strategy for companies in state ownership, adopted in 2015, includes detailed privatization plans: classifying SOEs to different groups, such as strategic, important and portfolio. State approach to an individual SOE will depend on its classification (majority equity, controlling equity, or non-mandatory equity). This plan was rewritten in 2017, with new company categorization. However, privatization is stalling: for example, the privatization of the biggest bank, the NLB, was cancelled in 2017 but initiated again recently alongside the Abank. Although SOEs are mostly well managed, there are signs of political appointments of their management. Corporate tax stands at 19%, while VAT is at 22% (standard) and 9.5% (reduced) rate. Personal income tax is highly progressive, with rates of 16%, 27%, 34%, 39% and even 50%. Social contributions paid by the employee and employer are also high, leading to overall high tax wedge on average salary of 43%, which is above the OECD average and many more developed European countries.

## **Regulation of Credit, Labour, and Business : 6.36**

Regulation of business activities is mostly business friendly. However, there are still complicated or unclear administrative procedures that fuel bureaucracy costs. Business regulation could be contradictory or inconsistent, which is exacerbated by inefficient government bureaucracy. Although petty corruption is mostly absent, public procurement and tenders are not corruption free due to a political influence over state and local administration in charge of these processes and political appointments to SOE management. There are also informal challenges facing foreign investors in certain industries, due to political resistance against their further involvement in the economy. High tax rates, bureaucracy and restrictive labour regulations are considered to be the most important hurdles to doing business in Slovenia. The set of structural reforms that was set up by the government with the objectives of reducing the red tape and improving the quality of planning of further regulation, including on tax administration and labour market reforms, is yet to be implemented and to deliver results. However, starting a business is easy and does not incur any costs in fees, but this is negated by a very high minimum paid in capital of 7500 euro. Getting electricity is also relatively easy due to streamlined procedures, but obtaining a construction permit is a durable task, due to a high number of procedures, as well as due to inefficient land registry. Tax compliance is complicated, incurring a high number of hours for regulatory compliance.

Labour regulation is mostly inflexible: fixed term contracts are prohibited for permanent tasks and temporary contracts are restricted to 24 months only. More seasoned workers enjoy a higher level of workplace protection and other perks, such as a higher number of paid annual-leave days, while notice-period and severance-pay increase according to years in tenure, all of which puts younger workers at a disadvantage. There are also strict redundancy rules, but working hours' regulation is mostly flexible. The minimum wage in Slovenia is very high, standing at 2/3 of the average wage, and was increased again in January by additional 5%.

## **Freedom to Trade Internationally : 8.69**

Trade freedom in Slovenia is mostly protected. Being a small, open economy, the importance of free trade is even more emphasized in the Slovenian case, for its production specialization and integration into the global economy. Since its accession in 2004, Slovenia implements the common EU trade policy, with overall low tariffs: the average MFN applied tariff rate stands at 5.1%, but those on agriculture products are much higher. Slovenia has also been a WTO member, since its establishment in 1995. However, non-tariff trade barriers in the form of mandatory and costly product standardization remain as an obstacle to trade. Customs office procedures are efficient and inexpensive - with only 4 documents both for import or export goods - not posing impediments to free flow of goods. Good public transportation infrastructure also provides a strong point for free movement of goods, by lowering freight costs, but the quality of railroads is significantly lagging behind roads and ports. Slovenia was the first post-transition country that entered the Euro-zone by adopting the euro in 2007; this move has further facilitated trade by abolishing currency conversion costs. Slovenia enjoys a very high level of trade integration, measured through the share of imports and exports in GDP. Its main trade partners are other EU members, most notably Germany, Italy and Austria. For years, Slovenia has been experiencing a trade surplus, e.g. at 6.5% of GDP in 2017. Obtaining a work or a residence permit for non-EU nationals is a complicated and costly procedure. Since July 2018, work permits for citizens of Croatia, required even after their country's accession to the EU in 2013, won't be necessary anymore.